

## Message Text

CONFIDENTIAL

PAGE 01 BONN 01110 01 OF 03 221733Z

46

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-05 NSCE-00 SP-02 L-01

INR-05 CIAE-00 FRB-01 TRSE-00 RSC-01 NEA-06 /047 W

----- 126116

R 221719Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7411

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 03 BONN 01110

LIMDIS

PASS FRBAND TREASURY FOR UNDER SECRETARY BENNETT,  
ASSISTANT SECRETARY COOPER AND L. WIDMAN

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: FINANCE MINISTRY STATE SECRETARY POEHL  
ON INTERNATIONAL MONETARY QUESTIONS

1. SUMMARY. DURING A MEETING WITH ME TODAY FINANCE  
MINISTRY STATE SECRETARY POEHL EXPRESSED GENERAL  
SATISFACTION WITH THE WASHINGTON MONETARY MEETINGS AND  
STRESSED THAT THE FRG CONSIDERS THE SOLIDARITY FUND AS  
A SAFETY NET WHICH SHOULD BE USED ONLY AFTER ALL OTHER  
MEANS OF FINANCING BALANCE OF PAYMENTS DEFICITS ARE  
EXHAUSTED. THE GERMAN GOVERNMENT HAS NOT YET DECIDED  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 01110 01 OF 03 221733Z

WHETHER TO PARTICIPATE IN THE SOLIDARITY FUND THROUGH

DIRECT CONTRIBUTIONS OR THROUGH GUARANTIES, BUT POEHL THOUGHT THAT THE DECISION PROBABLY WOULD GO IN FAVOR OF GUARANTIES. POEHL WAS RELATIVELY OPTIMISTIC REGARDING THE BALANCE OF PAYMENTS OUTLOOK OF THE INDUSTRIALIZED COUNTRIES, OTHER THAN THE UK, OVER THE NEXT YEAR OR TWO. HE WAS VERY PESSIMISTIC REGARDING THE OVERALL ECONOMIC OUTLOOK, HOWEVER, AND FELT THAT THE WESTERN INDUSTRIALIZED COUNTRIES MAY BE MOVING INTO A SERIOUS RECESSION. THE GERMAN GOVERNMENT IS CONCERNED REGARDING THE PRESENT WEAKNESS OF THE DOLLAR AND BELIEVES THAT ONLY A RELATIVELY NARROW MARGIN IS LEFT FOR FURTHER APPRECIATION OF THE DM BEFORE THIS REACHES UNACCEPTABLE LEVELS.

2. POEHL EXPRESSED GENERAL SATISFACTION REGARDING THE OUTCOME OF THE WASHINGTON MONETARY CONFERENCE. HE STRESSED THAT CHANCELLOR SCHMIDT HAD BEEN MAINLY MOTIVATED IN HIS AGREEMENT TO THE US PROPOSAL FOR A SOLIDARITY FUND BY POLITICAL CONSIDERATIONS, I.E., THE POLITICAL NEED TO DEMONSTRATE THE SOLIDARITY OF THE WESTERN INDUSTRIAL NATIONS. POEHL SAID THAT THERE MIGHT BE SOME DIFFERENCES IN NUANCES ON HOW THE VARIOUS PARTICIPANTS (BUT NOT NECESSARILY THE US AND GERMANY) INTERPRET THE AGREEMENT ON THE SOLIDARITY FUND AND HE THEREFORE WANTED TO EMPHASIZE THAT GERMANY CONSIDERS THE FUND TO BE A SAFETY NET TO BE USED ONLY AFTER ALL OTHER WAYS OF FINANCING BALANCE OF PAYMENTS DEFICITS HAVE BEEN EXHAUSTED AND NOT AS ANOTHER LINE OF CREDIT THAT COULD BE DRAWN MORE OR LESS AT WILL. ON THE CONTRARY, GERMANY HOPED THAT THE FUND WOULD NOT BE USED AT ALL AND DID NOT WANT ITS EXISTENCE TO ENCOURAGE OTHER COUNTRIES TO FAIL TO PURSUE RESPONSIBLE ECONOMIC POLICIES. FOR THIS REASON, AMONG OTHERS, POEHL FELT THAT IT WOULD BE PREFERABLE THAT THE FUND NOT CONSIST OF PAID IN CONTRIBUTIONS (WHICH ONCE THEY WERE AVAILABLE WOULD BE TOO EASILY COMMITTED TO EXPENDITURE), BUT RATHER SHOULD RAISE MONEY ONLY IF AND WHEN IT WAS AGREED TO GIVE AID TO A PARTICULAR COUNTRY. CONTRIBUTORS COULD THEN DECIDE ON A CASE BY CASE BASIS WHETHER TO PARTICIPATE THROUGH DIRECT CONTRIBUTIONS OR THROUGH GUARANTYING LOANS TO BE RAISED ON

CONFIDENTIAL

PAGE 03 BONN 01110 01 OF 03 221733Z

THE CAPITAL MARKETS. THIS WOULD HAVE THE ADDITIONAL ADVANTAGE OF LARGELY AVOIDING THE PROBLEM OF "OPTING OUT" SINCE NO ONE WOULD NEED TO OPT OUT IF ONLY A GUARANTY WAS REQUIRED OF HIM. IF A FEW MONTHS WOULD BE REQUIRED BETWEEN THE DECISION TO PROVIDE AID AND THE RAISING OF THE MONEY, SWAP LINES MIGHT BE USED TO BRIDGE THE INTERIM PERIOD.

3. POEHL SAID THAT THE QUESTION WHETHER TO PROVIDE CONTRIBUTIONS DIRECTLY OR THROUGH THE GUARANTYING OF LOANS WAS THE ONLY MAJOR POINT STILL OPEN REGARDING THE SOLIDARITY FUND. THE GERMAN GOVERNMENT HAD NOT YET MADE A DECISION ON HOW TO PROVIDE ITS CONTRIBUTION, BUT POEHL HOPED THAT A DECISION WOULD BE MADE WITHIN

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01110 02 OF 03 221734Z

46

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-05 NSCE-00 SP-02 L-01

INR-05 CIAE-00 FRB-01 TRSE-00 RSC-01 NEA-06 /047 W

----- 126136

R 221719Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7412

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 02 OF 03 BONN 01110

LIMDIS

THE NEXT TEN DAYS OR SO. THERE WERE SOME ADVANTAGES IN A DIRECT CONTRIBUTION. FOR ONE THING THE AVAILABILITY OF DIRECT ONTRIBUTIONS WAS MORE CERTAIN WHILE ONE COULD NOT BE SO SURE IN ADVANCE OF THE STATE OF THE CAPITAL MARKET AT THE TIME OF NEED. BUT, POEHL CONTIHUED, NEITHER THE CHANCELLOR NOR FINANCE MINISTER APEL HAD EVER SERIOUSLY ENTERTAINED MAKING A DIRECT CONTRIBUTION OUT OF THE FEDERAL BUDGET. THE CHOICE

RATHER WAS BETWEEN A DIRECT CONTRIBUTION OUT OF  
BUNDESBANK FUNDS OR A GUARANTY BY THE FEDERAL GOVERN-  
MENT. WHILE A BUNDESBANK CONTRIBUTION MIGHT BE  
PREFERABLE, IT WOULD BE VERY DIFFICULT TO PERSUADE  
THE CENTRAL BANK COUNCIL TO GO ALONG WITH IT AND THE  
FEDERAL GOVERNMENT HAD NO WAY OF ORDERING THE BUNDESBANK  
TO CONTRIBUTE. IN ADDITION, A BUNDESBANK CONTRIBUTION  
WOULD RAISE DIFFICULT QUESTIONS REGARDING A MOBILIZATION  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 01110 02 OF 03 221734Z

CLAUSE IN CASE OF GERMAN NEED OF FOREIGN EXCHANGE  
RESERVES "INVESTED" IN THE SOLIDARITY FUND, ETC. POEHL  
CONCLUDED THIS PART OF THE DISCUSSION BY SAYING THAT  
HE FELT THAT THOSE WHO WOULD MAKE THE DECISION (THE  
CHANCELLOR AND THE CABINET) PROBABLY WOULD DECIDE TO GO  
THE POLITICALLY EASIER AND LESS COMPLICATED GUARANTY  
ROUTE.

4. I ASKED POEHL FOR HIS EVALUATION OF THE GENERAL  
ECONOMIC OUTLOOK. REFERRING BACK TO THE DISCUSSION  
ON THE SOLIDARITY FUND, POEHL SAID THAT HE FELT THAT,  
BARRING A NEW MAJOR ECONOMIC UPHEAVAL, THERE WAS A  
GOOD CHANCE THAT THE SOLIDARITY FUND WOULD NOT NEED  
TO BE USED DURING THE NEXT YEAR OR SO, EXCEPT POSSIBLY  
BY THE UK IF THE ARABS SHOULD DECIDE TO SHIFT THEIR  
STERLING INVESTMENTS. THE OTHER LARGE INDUSTRIALIZED  
COUNTRIES, PARTICULARLY FRANCE AND ITALY, DID NOT  
SEEM TO HAVE ANY DIFFICULTY IN COVERING THEIR BALANCE  
OF PAYMENTS DEFICITS OUT OF THE CAPITAL MARKETS, THE  
EC LOAN, FOREIGN EXCHANGE RESERVES, GOLD, THE IMF AND  
OTHER EXISTING SOURCES. AFTER A YEAR OR TWO, POEHL  
FELT THAT THERE WOULD COME A PERIOD OF TWO, THREE OR  
FOUR DIFFICULT YEARS IN TERMS OF THE BALANCE OF  
PAYMENTS PROBLEMS OF THE INDUSTRIALIZED COUNTRIES.  
THEREAFTER, ARAB DEMAND FOR IMPORTS AND WESTERN  
DEVELOPMENT OF SUBSTITUTE FORMS OF ENERGY WOULD COME  
INTO PLAY. POEHL FELT CONFIDENT THAT EVEN BEFORE  
THAT TIME OIL PRICES WOULD BEGIN TO DECLINE AND  
PARTICULARLY SO IF THE LARGEST WESTERN ENERGY CONSUMER,  
THE US, COULD IMPLEMENT AN EFFECTIVE ENERGY SAVING  
PROGRAM. ON THE BALANCE OF PAYMENTS FRONT, POEHL  
THUS WAS GENERALLY OPTIMISTIC EXCEPT FOR THE SITUATION  
OF THE UK WHOSE POLICIES HE CHARACTERIZED AS  
IRRESPONSIBLE.

5. POEHL WAS VERY PESSIMISTIC, HOWEVER, REGARDING  
THE MORE GENERAL ECONOMIC OUTLOOK. HE SAID THAT HE  
SAW NO EVIDENCE THAT WESTERN COUNTRIES HAD MASTERED  
THE PROBLEM OF SIMULTANEOUSLY FIGHTING INFLATION AND  
RECESSION. HE WAS SKEPTICAL WHETHER THE US PROGRAM--

AND ALSO THE GERMAN ONE FOR THAT MATTER--WOULD SUCCEED  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 01110 02 OF 03 221734Z

IN PULLING THE ECONOMY OUT OF RECESSION AND THOUGHT  
THAT THERE WAS A REAL POSSIBILITY OF A SERIOUS WORLD-  
WIDE DEPRESSION. THIS IN TURN MIGHT LEAD TO SUCH  
MASSIVE FISCAL STIMULI AS TO FURTHER FUEL INFLATION,  
ETC.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01110 03 OF 03 221736Z

46

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-05 NSCE-00 SP-02 L-01

INR-05 CIAE-00 FRB-01 TRSE-00 RSC-01 NEA-06 /047 W

----- 126163

R 221719Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7413

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 03 OF 03 BONN 01110

LIMDIS

6. I ASKED POEHL FOR HIS REACTION TO THE RECENT

WEAKNESS OF THE DOLLAR. HE REPLIED THAT THIS WAS A MATTER OF SERIOUS CONCERN TO THE GERMAN GOVERNMENT. THE PRESENT APPRECIATION OF THE DM WAS ALREADY CAUSING SERIOUS PROBLEMS FOR SUCH FIRMS AS VOLKSWAGEN. THE MARGIN FOR FURTHER APPRECIATIONS OF THE DM WAS VERY SMALL BEFORE IT WOULD REACH RATES NO LONGER ACCEPTABLE TO THE FEDERAL REPUBLIC. THE BUNDESBANK SO FAR THIS MONTH HAD TAKEN IN THE DM 1.5 BILLION EQUIVALENT OF DOLLARS AND THE SCOPE FOR ARRESTING A FURTHER UPWARD MOVEMENT OF THE DM THROUGH INTERVENTION WAS OBVIOUSLY LIMITED. POEHL FELT THAT THE STRENGTH OF THE DM, AND THAT OF MOST OF THE OTHER EUROPEAN CURRENCIES, WAS DUE MAINLY TO THE CONVERSION OF DOLLARS BY THE ARABS. WHILE THE GERAN AUTHORITIES DID NOT HAVE MUCH

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 01110 03 OF 03 221736Z

INFORMATION ON THIS, POEHL FELT THAT THERE HAD BEEN A SIZEABLE FLOW OF ARAB MONEY INTO GERMANY DURING DECEMBER AND JANUARY. IN THIS SITUATION THE PRESSURE FOR THE REIMPOSITION OF CAPITAL FLOWE CONTROLS WAS INCREASING--WITH PRESIDENT KLASSEN IN THE LEAD OF THOSE ADVOCATING THEIR IMPOSITION. FCAPITAL FLOWS THE CONTROLS, IF IMPOSED, ALSO COULD EXTEND TO THE PURCHASE OF GERMN STOCKS BY FOREIGNERS AND THUS PREVENT FURTHER ACQUISITIONS BY ARABS AND OTHERS. WHILE POEHL HIMSELF OPPOSES THE IMPOSITION OF CAPITAL FLOW CONTROLS, HE LEFT THE IMPRESSION THAT THEY MIGHT BE UNAVOIDABLE IF CAPITAL MOVEMENTS PUSH THE DM MUCH BEYOND ITS PRESENT DEGREE OF UPVALUATION.

HILLENBRAND

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN POLICY POSITION, MONETARY AGREEMENTS, BALANCE OF PAYMENTS, REVOLVING FUNDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 JAN 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BONN01110  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750024-0364  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750131/aaaabbkr.tel  
**Line Count:** 311  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 09 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <09 APR 2003 by MartinML>; APPROVED <10 APR 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCE MINISTRY STATE SECRETARY POEHL ON INTERNATIONAL MONETARY QUESTIONS  
**TAGS:** EFIN, GE, XX, (POEHL)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006